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Bill Clears Way for Government to Cut Back College Loans

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The federal government will be able to require millions of college students to shoulder more of the cost of their education under the new spending bill approved yesterday by the House and Senate.

The government moved to change its formula for college aid last year, but was blocked by Congress. Now, however, no such language appears in the appropriations bill lawmakers are considering, clearing the way for the government to scale back college grants for hundreds of thousands of low-income students.

Nearly 100,000 more students may lose their federal grants entirely, as Congress considers legislation that could place more of the financial burden for college on students and their families.

The cutback stems from a revision to the formula governing virtually all of the nation's financial aid. Last year, the Department of Education changed the formula on its own, angering members of Congress who contended that it was a backdoor way of cutting education spending without facing the public. The department retorted that it was merely following the law.

In response, Congress passed legislation in the fall of 2003 to suspend the new formula for at least a year. The Senate put forward the same measure this year, and many members of the House said they also expected the new formula would wait at least until Congress updates the Higher Education Act, which will probably take the better part of the coming year.

But keeping the old formula in place for another year would add an extra \$300 million in grants for college students to a program that is already running at a shortfall, the Office of Management and Budget said. So, the bill approved yesterday, brokered by Congressional leaders in a conference committee, eliminates a provision that would have barred the Education Department from changing the eligibility formula. A Senate staff member who spoke on the condition of anonymity said that the White House insisted the provision be dropped, citing the shortfall, and House Republicans were adamant in their agreement to do so.

"They are throwing students out of the opportunity to seek a college education," said Senator Jon S. Corzine, the New Jersey Democrat who wrote the amendment to stop the changes last year, and introduced a similar provision this year that did not survive the conference committee. "It is now clear to me that this was a backdoor attempt to cut funding from the Pell grant program."

The exact impact of the new rules is difficult to predict, but had the new formula gone into effect last year, it would have prevented about \$270 million from being spent on Pell grants, the nation's primary scholarship program, the Congressional Research Service found. Many students, perhaps more than a million, would have received smaller grants, many education experts estimated. And about 84,000 students would have lost their Pell grants altogether, the research service reported.

Brian K. Fitzgerald, director of the Advisory Committee on Student Financial Assistance, which Congress created to advise it on student aid, estimated that the \$300 million the administration hopes to save in the coming year will very likely mean that more than 90,000 students, largely among those whose parents earn \$35,000 to \$40,000 a year, would lose their Pell grants.

Whether furnished by colleges, states or the federal government, the vast majority of the nation's \$110 billion in financial aid is dictated by an intricate federal formula. Its purpose is to calculate how much of a family's income is truly discretionary, and therefore eligible for covering college expenses.

Much like federal income tax, the formula allows families to deduct some of what they pay in state taxes. But last year the department significantly reduced that amount, in some cases cutting it in half, leaving families with more money left over to pay for college, at least on paper.

The problem, many members of Congress contend, is that state taxes have gone up for the last three years, not down, making the new formula out of step with the economic environment families currently face. With the issue seemingly on hold, the Department of Education said in June that it would review the formula and seek guidance on its fairness.

Without instructions from Congress to the contrary, however, department officials said that they would most likely start using a new formula, as required by law. Its effect on students could vary greatly from family to family, depending on their economic circumstances. But assuming that the department uses figures that are similar to the ones it proposed last year, as many as 1.2 million low-income students could have their grants cut, according to the American Council on Education, which represents colleges.

That does not mean that the government will end up spending less money on college scholarships than it has in prior years. In fact, significant increases in the number of low-income students going to college, and the recent economic woes of students and parents who might not have been eligible for help in the past, means that the government spent more than \$13 billion on Pell grants in 2004, up from about \$10 billion in 2001, department statistics show.

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